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C O N F I D E N T I A L SECTION 01 OF 04 TEGUCIGALPA 000972

SIPDIS

SIPDIS

STATE FOR EB/ESC, WHA/EPSC, WHA/PPC, AND WHA/CEN
STATE FOR D, E, P, AND WHA
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STATE PASS AID FOR LAC/CAM
NSC FOR DAN FISK

E.O. 12958: DECL: 05/25/2016

TAGS: [EPET](#) [ENRG](#) [PGOV](#) [PREL](#) [PINR](#) [HO](#)

SUBJECT: HONDURAN PRESIDENT SIGNALS PETROCARIBE DEAL
LIKELY; RUMORS PERSIST THAT DIPPSA COULD PLAY KEY ROLE

REF: A. A: TEGUCIGALPA 897 AND PREVIOUS

[1](#)B. B: MANAGUA 01079

[1](#)C. C: SAN SALVADOR 000853

Classified By: AMB Charles Ford for reasons 1.4 (b) and (d).

[1](#)1. (C) Summary: In a private lunch, President Zelaya signaled to Ambassador that a PetroCaribe deal was likely, reiterated the many areas that GOH worked closely with the USG, and asked for "reciprocity" of support from the USG for the GOH in its time of need. Zelaya stressed that any such deal would be economically and not politically motivated. EmbOffs stressed the political risks -- intended or not -- of such an approach. Post also met separately with the current and former owners of Honduran gasoline importer and marketer DIPPSA, to better understand the role that company could have in any such deal. Despite persistent rumors that a PDVSA (Venezuela's parastatal energy company) deal to purchase Honduran fuel distributor DIPPSA is imminent, both the current and former owners claim that the rumors aren't true.

In addition to its wholly-owned chain of service stations, DIPPSA is also a 50 percent owner (with Exxon) of key fuel storage terminal facilities in Port Henecan, in southern Honduras. Those facilities could in theory be used to distribute PDVSA fuel to other Central American countries, including Nicaragua where some Sandinista mayors have reportedly signed PetroCaribe agreements. While maintaining he is not interested in a PDVSA bid, new DIPPSA owner Henry Arevalo is now in talks with Exxon on purchase agreements and a potential sale of the terminal. A PDVSA purchase of DIPPSA would give Venezuela a solid network of gas stations and storage facilities in Honduras, and may set DIPPSA up as a prime candidate to win the upcoming national bid for fuel imports. End Summary.

Zelaya Signals PetroCaribe Likely; Seeks USG Understanding

[1](#)2. (C) At a private May 25 lunch with Ambassador, EmbOffs, and most of the GOH Cabinet, President Zelaya raised the

PetroCaribe issue publicly for the first time in many weeks. He signaled that a PetroCaribe deal would happen, but that the motivation for such a deal would be economic and not political. (Note: Liberal Party President Patricia Rodas echoed this view in a meeting May 26 with PolChief, stating that, even if the GOH wanted a closer political relationship with Chavez, it had to recognize the overarching importance of the close relationship with the USG. End Note.) He thanked the Ambassador for his restraint in his public remarks, noting that some had helped calm a tense situation. Nevertheless, Zelaya also noted that the GOH roundly supports the USG internationally (including by sending troops to Iraq in 2004), and expects "reciprocity" in that support now that Honduras faces a fuel "crisis." EmbOffs corrected a number of misapprehensions among the President and other Cabinet members, pointing out technical, economic, and political weaknesses in the PetroCaribe program and the risks in aligning Honduras with Venezuelan President Hugo Chavez in general. (Comment: We remain convinced that Zelaya receives incorrect or perhaps even rosy-colored analyses of PetroCaribe from his close advisors. Foreign Minister Milton Jimenez, for example, during the lunch trotted out a number of old canards regarding immigration, the F-5 fighters, and PetroCaribe, each of which was gently corrected in turn by Embassy staff. Ambassador reinforced these points more forcefully in a brief pull aside with Zelaya following the meal. Post will continue to press Zelaya to avoid dangerous dependence on Chavez through PetroCaribe. End Comment.)

DIPPSA For Sale?) If So, to Whom?

13. (C) As reported in ref A, Honduran fuel distributor

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DIPPSA remains the subject of persistent rumors that PDVSA plans to buy the company, or at least a key fuel terminal in the southern Honduran Port Henecan, located adjacent to the town of San Lorenzo. The fuel terminal, jointly owned by Exxon and DIPPSA but operated entirely by DIPPSA, is strategically located near the Pan-American highway, with easy access to neighboring Central American countries Nicaragua and El Salvador. Through PetroCaribe, PDVSA has initiatives in each of these countries and could in theory use the San Lorenzo facilities as a key supply point (refs B and C).

14. (C) Ambassador, EconChief, and EconOff spoke with DIPPSA owner Henry Arevalo on May 23. Arevalo, who was already a 40 percent partner in DIPPSA, bought out majority owner Jose Lamas, 60 percent stake five months ago. Arevalo said he has been approached by PDVSA for a possible sale, but maintained that he had no interest in selling to the Venezuelan company. He indicated that another potential buyer for the company was Salvadorian real-estate and sugar businessman Guillermo Borjas, cousin of the owner of small conservative newspaper El Mundo. (Comment: Given Borjas, lack of experience in fuels, it seems odd he would contemplate a USD 60 million purchase for fuel assets, particularly in Honduras where expropriation remains a high probability. Post suspects he may be fronting for other interests. More recently, Embassy San Salvador reports (notal) that Borjas might have lost interest in the sale. End Comment).

15. (C) Arevalo also stated that he will be traveling to the U.S. soon to talk with his partner Exxon regarding the San Lorenzo terminal. While he explained he will be discussing usage costs and other business matters, he indicated that Exxon has the right of first refusal to buy the terminal if it is put up for sale. Exxon's Honduran representative acknowledged that Arevalo will be meeting with Exxon, but said that the meeting was requested by Exxon because we think he will have some problems paying8 in the near future. (Note: In May 12 conversation with Ambassador, Ficohsa Bank

CEO and former Minister of Investment Camilo Atala (reftel) indicated that Arevalo had borrowed USD 18 million to purchase the remaining 60 percent stake in DIPPSA, while also borrowing USD 34 million to repay existing debt to other creditors, particularly Banco Mercantil (BAMER). With DIPPSA valued at an estimated USD 50 to 60 million, Arevalo by this calculation holds about USD 52 million in debt. End Note.)

Following the Money) to a Honduran Shell Company?

16. (C) While Arevalo maintained he wasn't interested in selling to PDVSA, he has participated in meetings with the GOH regarding how PetroCaribe might work. As previously reported, Honduran businessman Arturo Corrales will be traveling to Caracas (dates still TBD) to propose a commercial version of PetroCaribe, and President Zelaya has maintained that the GOH will not be involved in the financing of PetroCaribe shipments. Arevalo outlined a plan where a shell company, 49 percent owned by the GOH, would line up the financing for the estimated USD 80 million required each month to import Honduras, fuel products. With 90 day payment terms, this company could demand a 60 day term from Honduran distributors, offsetting their payment risk. With the generous payment conditions under PetroCaribe, this shell company would pocket 40 percent of the fuel bill and could, per Arevalo, invest in crops to grow and pay Hugo Chavez back in bananas or corn.8 (Comment: Arevalo's comments echo Corrales,, who described Honduran bank Banco Atlantida as holding the cash proceeds and using them in a variety of goodwill projects. It is our understanding that the terms of PetroCaribe prohibit repayment in the form of barter, however using PetroCaribe financing to subsidize small farmers, production for export to Venezuela would be

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consistent with Zelaya's current agriculture sector strategy. If successfully implemented with specific reference to PetroCaribe, such a plan could extend Chavez's popularity far into the Honduran countryside, winning the approval of subsistence farmers who might not be direct consumers of gasoline, but would be exposed to Chavez's "generosity" through the crop subsidies. End Comment)

17. (C) On May 24, Ambassador, EconChief, and EconOff met with former DIPPSA majority owner Jose Lamas. Lamas, a Cuban-born Honduran who fled the Castro revolution, has until recently had a broad spectrum of financial interests throughout Honduras, including banking, airports, wood products, and real estate. Lamas has recently sold several companies he owned or had stakes in, including DIPPSA and airport service provider Inter-Airports. (Comment: Post believes Lamas' decision to divest from many lines of business in Honduras reflects his negative views of both the political and business prospects in Honduras. Lamas reportedly contributed significantly to Nationalist Presidential candidate Porfirio "Pepe" Lobo's campaign, and was deeply disappointed by his November 2005 electoral loss. Lamas said "Zelaya is not a communist," but he expressed doubts about the policies being pursued by the Zelaya team, and about the leftist orientation of a number of advisors surrounding Zelaya. In the case of DIPPSA, Lamas also foresaw a tough market ahead, with either increased state regulation of the gasoline sector or moves towards market liberalization threatening the viability of his business. End Comment.)

18. (C) Strongly anti-communist, Lamas indicated that he was never contacted by PDVSA and sold his stake in DIPPSA because, with revisions coming on how fuel is imported and distribution prices set, a purely Honduran company will never survive8 without being subsidized by higher margin upstream activities like those enjoyed by the oil majors. On the potential for PDVSA to win the upcoming Honduran national fuel bid, Lamas discounted the possibility, stating that he

thought President Jose Manuel &Mel8 Zelaya would bring the bid to the brink of a decision, then &use it as leverage to modify the (current price fixing) formula.8 This view conflicts with current owner Arevalo's assessment that the international bid solicitation will "without doubt" be won by Venezuela. (Comment: It comes as no coincidence that rumors of a sale to PDVSA coincided with Lamas, exit) the Cuban emigrant radiates anti-communist sentiment. His idea that President Zelaya would use the bid to force revision of the formula, though, seems off the mark to Post) why trade away a potentially lucrative deal with Venezuela to attack the truckers and dealerships that have considerable political clout? End Comment.)

19. (C) Comment: Arevalo would appear to be the linchpin in any strategy involving PDVSA obtaining a share of the Honduran market. Arevalo seems to be under some pressure to sell, and while Exxon has the first option to buy the terminal, that company has effectively frozen all new investment in Honduras due to current uncertainties. Should Exxon (as seems likely) choose not to exercise its right to buy-out Arevalo's share of the terminal, Arevalo would then be free to sell that facility to Borjas or other suitors. With PDVSA looking for a way to supply towns in El Salvador and Nicaragua with PetroCaribe fuel, the company likely retains an interest in buying the storage facility, and could be in talks already with investors and distributors like Borjas. One question remains: if it is likely to win the international bid solicitation anyway, why would PDVSA need to buy DIPPSA? The answer might lie in the need to secure a key supply strategy. Alternatively, a newly purchased DIPPSA, with its established licenses and contracts, could bid on and win the proposed national bid with a PetroCaribe-like deal. Post continues to follow this matter closely, but the intertwining economic and political interests continue to cloud understanding of the deal, even

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among the key players themselves. Whether Zelaya has an interest in a warmer relationship with Chavez is one question; whether Zelaya's advisors could use his interest in an expedient economic solution to achieve such aims even without his intent is another. End Comment.

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